Yeaman, George Helm

A currency primer

New York

1896

98-84361-10
MASTER NEGATIVE #

COLUMBIA UNIVERSITY LIBRARIES
PRESERVATION DIVISION

BIBLIOGRAPHIC MICROFORM TARGET

ORIGINAL MATERIAL AS FILMED - EXISTING BIBLIOGRAPHIC RECORD

332..41
Z Yeaman, George Helm, 1829-1908..
v.11 A currency primer. New York, 1896.
16 p. 23 cm. .

From Sound currency, Feb. 15, 1896, v. 3, no .6.

Volume of pamphlets.

Only Ed

TECHNICAL MICROFORM DATA

FILM SIZE: 35mm REDUCTION RATIO: 11:1 IMAGE PLACEMENT: IA IIA IB IIB

DATE FILMED: 3-5-98 INITIALS: PB

TRACKING # : 31355

FILMED BY PRESERVATION RESOURCES, BETHLEHEM, PA.

SOUND CURRENCY.

PUBLISHED SEMI-MONTHLY BY THE SOUND CURRENCY COMMITTEE OF THE REFORM CLUB.
ENTERED AS SECOND-CLASS MATTER AT THE NEW YORK, N. Y., POST-OFFICE.
Publication Office, No. 52 William St., New York City.

Vol. III., No. 6. NEW YORK, FEBRUARY 15, 1896. SUBSCRIPTION, $1.00. SINGLE COPIES, 5 CENTS.

Each number contains a **special discussion** of some Sound Currency question.

The whole matter of money, a measure of value, a means of exchange, a circulating medium, is one of necessity, convenience, adaptation to the end. It is a question of the fitness and effectiveness of the material substance of which the instrument is made.

Manifestly that fitness, the convenience and effectiveness of the thing, must be determined by the judgment of those who use the instrument, those who do the business, the labor and exchange of the world.

Law should attempt to follow that judgment and not attempt to form it, force it, or control it.

A CURRENCY PRIMER.

GEORGE H. YEAMAN.

A CURRENCY PRIMER.

I do not address financiers, bankers, economists, great business men and statesmen. They are presumed to understand the subject. But when they discuss money they too often shoot over the heads of those who have not studied the subject. It is a dry subject, complex, difficult, but extremely important. Its literature is immense, describing uncounted fallacies, urged with ability and shrewdness, and giving useful histories of theories and mistakes that have led, sometimes to national and sometimes to world-wide financial disaster. In all this mass of literature, both sound and unsound, first principles have been too much neglected. Even those who best understand those principles sometimes forget that their arguments may not be understood by those not familiar with the elements of the discussion. With no claim to originality, my aim is to be simple, if trite, and to incite to further study of primary principles.

BARTER.

The history of money and the history of the civilization of the human race are intertwined. A savage finds himself under the necessity of living by preying on other animals. He is a hunter and fisher, gathers the spontaneous productions of the vegetable world and occasionally is a man eater. He discovers the art of taming other animals, and becomes a shepherd, but roams with his herd. He has taken the first step. His next and greatest step is when he becomes a tiller of the soil, to which he is fixed by "the never-ending course of seedtime and harvest." Next he "goes down to the sea in ships," and darts across continents on iron rails, all in the business of the exchange of products.

The earliest form of this exchange is barter in kind, literally swapping one thing for another thing. The red Indians exchanged furs for rifles, powder, brandy and blankets. They would not have received money for their furs. They did not know its use. But they did know guns, blankets, ammunition and brandy. There is a manifest limit to the possibilities of barter in kind. In all ages, in the history of all peoples who have emerged from savagery, there are abundant evidences that first as barbarians, and next as civilized communities, they constantly sought for some medium or instrumentality by which exchange, or transfer of property, or value of any kind, could be more quickly, more conveniently and accurately accomplished than by barter in kind. To accomplish this is the *office of money*. It is a time-saving and labor-saving instrument, just as are machines and the mechanics' tools.

As man emerges from savage into barbarian and tribal life, to the stage of the shepherd wandering with his flocks, we find the fact of the division of labor slowly evolving. When the plow and the sickle, the threshing floor and the oven have anchored him to the soil and cities are evolved as centres of human activity, this division of labor becomes greatly differentiated, highly specialized. Nothing deserving the name of civilization could exist without that division of labor and the exchange of its products. Hence the exceeding importance of effective money.

This division of labor, production by many individuals, each confining himself to one art or industry, increases skill, while skill increases both the quantity and the quality of the thing produced. The diversity of production necessitates the exchange of products. All want bread; only the miller grinds grain into meal and flour, and only the farmer produces the grain. All want clothes; only the tailor makes them and he must have cloth from the loom, and the weaver wool from the flock. All want shoes; only the shoemaker can make them, and he must have leather from the tanner, and the tanner must have hides from the butcher. And so on to the end, if the end could be found.

RUDE TOKENS AND COUNTERS.

Very early we find men estimating all things by a few other things. A token, a counter, a standard of value is evolved. Hence seashells, cattle, the flesh of cattle; later, the skins and furs of animals; then metals by weight and later coins, for which lead, tin, copper, have been used, and even iron among the Spartans. Iron nails were once used locally as a standard in Scotland, and tobacco was once a legal tender in Colonial Virginia, as corn was in Massachusetts.

In the ephemeral and revolutionary State of Franklin, comprising what is now East Tennessee, skins and furs taken in the chase were endowed by law with the qualities and functions of money, because there was little or no coin in the new country. (Roosevelt's "Winning of the West.") They were rated according to known coins, and used for lack of coins. The law was based upon a pre-existing custom of the people, the custom was based upon convenience and necessity. In a more advanced and developed commercial society, government would be impotent to endow deer, beaver, otter and bear skins with legal-tender qualities and cause them to pass as money.

Among the early Romans, as well as our own barbaric ancestors of the north of Europe, cattle were the standard of value, the medium of exchange. Thus *pecus*, cattle, is the Latin grandfather of our word *pecuniary*. Later copper was used by weight. "A purchase was held to be legally concluded when the seller delivered the article purchased into the hands of the buyer (*mancipare*) and the buyer, at the same time, paid to the seller the stipulated price in the presence of witnesses. This was done after copper superseded sheep and cattle as the regular standard of value, by weighing out the stipulated quantity of copper in a balance adjusted by a neutral person. And so the Latins, who were poor in copper (*aes*), designated valuation itself as 'coppering' (*aestimatio*)." "The Roman copper unit of value was the '*as*.'" "When the cattle fines were converted into money fines, the sheep were valued at ten and the ox at a hundred *ases*" (Mommsen.). Thus *aes*, copper, continues to live, both in our currency and in our language, as does "estimation," with a modified meaning.

THE PRECIOUS METALS.

As communities progress and exchanges increase in amount and frequency, the precious metals come into use. Invariably the change is from something rude and bulky to something more condensed, of greater value, therefore of greater convenience and efficiency. Abraham paid silver, "silver current with the merchant," for a burying place. The translators add the word *money* in italics, to indicate that it is not in the original. The silver was bullion and did act as money, but in a clumsy way, for the sacred word says it was "weighed." Job also refers to the custom of weighing silver. Coins may be counted, but they must be "current with the merchant"—using the word merchant for all who buy or sell, which includes everybody. We thus find in the Bible, expressed in a very few words, two of the most important points in the history of this subject.

Silver is not now current in commerce at the rate of 371¼ grains for $1. Every dollar of that weight, so stamped by the Government, is an official statement untrue, misleading and confusing. A departure from commercial value will be submitted to in small transactions, as hereafter shown, touching copper coins, but no civilized community has ever submitted to it on a large scale, or as affecting the whole body of coinage, as shown by the result of the oft-repeated attempts to increase the mass of money by debasing the purity of metals of coinage. Commerce will not submit to it and crowned despotism has been unable to enforce it for any considerable time.

QUALITY OF MONEY METALS.

Why the metals called "precious" are used as coins must now be discussed.

As a standard, or instrument to measure value, coins must be convenient and effective. All forms and denominations of coins must so respond to the sense of sight and the sense of touch as to be conveniently handled and counted, easily transported and safely kept. They must be neither too small and light, nor too large and heavy. A copper dime would be too large, a silver cent too small, and a gold dollar was found to be too small. All these are excluded by the rule of convenience. A silver dollar is not so clearly excluded, but it is close to the border line beyond which bulk and weight would not be tolerated. Money is influenced more by physical and mechanical reasons than by the power of law.

To be convenient and effective, money must have uniformity and permanency of function, stability in its relation to other things, small in weight and size and limited in quantity.

To have these qualities it must be authentic, to avoid the necessity of testing it as to purity and weighing it for quantity at every transaction. It must be capable of being rapidly counted, in order to agree upon the "estimatio." It can have this regularity and authenticity only by being coined and stamped by government.

This enumeration of the qualities which fit money for the effective discharge of its office and function points inevitably to gold and silver as the metals from which it must be made for use in any considerable sums. For petty transactions nickel, and for still smaller transactions copper, take a minor and limited position.

The relative use of these metals is simply a question of convenience and efficiency. Why do we not use gold exclusively? Because a gold dollar is inconveniently small and a gold dime would be impracticable. For these we prefer silver. Below gold why do we not use silver exclusively? Because a five-cent piece of silver would be too small for convenience, and a one-cent piece of pure silver would have no utility; its small size making it difficult to keep, handle and count. For these we prefer nickel and copper.

Now invert the question. Why not all money of copper? Because we do not wish to carry in our pocket so much as one dollar in copper cents. Then why not all in silver? Because we do not wish to carry so much as ten, certainly not so much as fifty dollars, in silver in our pocket. Then why not all gold? Because we prefer silver for some purposes, and coarser metals than silver for still smaller purposes. And why have and use any paper representatives of coins? Because we do not wish to carry $100, certainly not $1,000, of gold in our pocket. *Who* or *what* gave these metals—gold, silver, nickel, copper—their peculiar qualities for serving as coined money? Man did not. Law did not. Government could not. It was done by *Nature*. Man, government, law, only took hold of and utilized the materials furnished by Nature.

Nature has given these metals the qualities of durability and malleability; to two of them great beauty, and to one of them great scarcity in quantity and steadiness of supply as compared with other metals. Having illustrated, what is often overlooked, the enormous importance of convenience and effectiveness—qualities which any material for money must possess—we can easily see the like importance of compactness and limited supply of that material, when large values are to be estimated. Suppose gold were our only money and it suddenly became as plentiful as pig-iron. It would cease to be used as money. The gold you would then carry to market would be heavier than the vegetables and meats you brought away. Something else would have to be substituted for gold.

If the tables were thus turned as between gold and silver, then instead of one of gold to sixteen of silver as now, the ratio would be about one of silver to 4,700 of gold, and the ratio between gold and pig-iron, instead of being about one to 75,000 or 100,000, would be one to one. This illustrates the potency of the factors of compactness and convenience, combining to constitute the effectiveness of money as an instrument to facilitate business transactions. Nature has decreed of what materials our money shall be, and has even indicated the proportions of money to be made of each metal, and nature is more potent than legislation. The qualities of scarcity and regularity of supply of any material for money, prevent both sudden expansion and sudden contraction. Legislative fiat money, promises and pretty pictures, printed on pretty paper, with no metal behind them, have no place in a sound currency. Inflation with a relatively inferior metal is only not quite so bad as paper inflation with no solid metallic basis. It is the same evil, differing only in degree and in the material used for the first money.

Our one-cent coin is mainly of copper, with small proportions of tin and zinc. The commercial value of the three metals needed to coin twenty-five of these pieces is about *ten cents*. Yet these one-cent coins are legal tenders up to *twenty-five cents in one payment*. Why do we submit to this? Merely as a matter of convenience, the absolute necessity of having, in the petty transactions of life, legal and authentic small tokens or counters. Would people submit to having these one.cent pieces of inferior metal endowed with legal-tender capacity in large sums or in unlimited amounts?

Another example of our willingness to submit *to disparity in small things* is the legal-tender quality of silver coins less than a dollar, not exceeding $10 in one payment. The creditor who is paid 40 quarters or 100 dimes for an article, or in discharge of a debt of $10, receives less silver in weight than if paid in ten one-dollar coins. Four quarters or ten dimes do not weigh quite so much as a dollar piece. There being good reason why they should not, we submit to this for the convenience of having quarters and dimes. Not being of full relative weight, as compared with the dollar, prevents their being bought up, melted down and used as bullion in the arts, which would cause scarcity of small change.

In large and quick transactions and in payments between distant places there is a point at which even gold loses to a large extent the element and quality of convenience that must enter into such transactions. Hence checks, drafts and bills of exchange. The gold is transferred and paid, not by being counted, but simply by bookkeeping, placing the amount to one man's credit and to another's debit, the gold remaining locked up in a vault. But all the drafts, bills of exchange and checks—even certified checks—and paper money in the world, would not be worth the paper they are written or printed on except for the confidence of the holder that on presentation he *could*, if he wished, draw the amount in coin.

Those who contend that there is not enough money in the country for the business of the country should reflect that in the great commercial centres of England and the United States the proportions of actual cash payments in all forms of money, is about 3 per cent. of the total transactions, 97 per cent. being accomplished through checks, drafts and bills of exchange, as being more convenient than metallic coins or even paper money, and safer for transmission.

There is often a misleading allusion to the *innate value* of gold and silver. Value is what a thing will sell for. If we say *innate utility*, instead of value, then a pound of steel would be far more useful in helping a man to subdue nature, and make a living, than a pound of gold. It is the adaptation of gold to being used

as money, its scarcity being an important element, which confers its great value. As an *instrument* for making exchanges it has *utility*. Steel has *utility* when converted into instruments for *making* the things to be exchanged. Thus the so-called innate *value* of gold is resolved into those innate qualities which confer upon it *utility* for a given purpose. Nature was very kind in making gold a very scarce article.

MONEY AND WEALTH.

We cannot proceed intelligently with the subject without some other idea of wealth than merely money. Money, like other instruments, helps to create wealth. It quickens exchange of products, ramifies division of labor, and, as working capital, pays for labor. But far the greater part of all wealth consists of the accumulated products of labor, the excess of production over consumption. Without these products money could in no sense be called wealth. Money is not clothes, or houses, nor food, nor machinery; it is not articles of value and utility, such things as food, shelter and clothes for man. It only immensely facilitates the production and exchange of such articles. Robinson Crusoe had some money on his lonely island, but it was utterly useless to him. There was no labor he could hire; no finished articles or raw materials he could buy with it; no one on the island to sell him anything. His gun, axe, ammunition, sail cloth and seeds, brought away from the wrecked ship, the goats he tamed and bred on the island, and the little crops he raised, were his wealth, and being alone he would have been just as wealthy without his purse of money.

If we could discover seventeen of the largest sized mountains composed wholly of the precious metals, at the legal ratio of sixteen mountains of silver to one of gold, or at the present commercial ratio, thirty mountains of silver to one of gold, and convert them all into coin, and scatter it throughout the land, divide it *per capita*, each man, woman and child would be a multi-millionaire; each would have more money than the richest man now has. And yet the wealth of the nation would not be increased. With all that money, it would be no easier to earn a living than it is now. The same labor of tilling the earth for food, building houses and making clothing out of raw materials would be required then as now. And we would have so much money that it would cease to be fit to discharge the functions of money, and some other circulating medium would have to be found.

THE "PER CAPITA" THEORY.

There has been much unwisdom about the *per capita* of money necessary to do the business of the country. The population, business and wealth of the country have grown, but so has the volume of the currency, so that the *per capita* is larger now than before the civil war. *Per capita* is a mere catch phrase, explains nothing, has no economic meaning.

We are told that France has a larger *per capita* of money than the United States. So she has, and also has a considerably smaller aggregate of wealth. The French people *hoard* more than the Americans and deposit less. Here one man's money in bank, idle as to him, is loaned to others by the bank and kept in circulation In France old stockings, secret drawers, and boxes buried out in the orchard are used, not always, but more frequently than here.

As among twenty nations, great and small, the United States is the country of the greatest aggregate wealth, and the fourth in per capita of actual money. Great Britain is the second in wealth and the fifth in per capita of money. France is the third in wealth and the first in per capita of money. Germany is the fourth in wealth and the ninth in per capita of money. Russia is the fifth in wealth and the seventeenth in per capita of money. Austria is the sixth in wealth and the thirteenth in per capita of money. Italy is the seventh in wealth and the seventh in per capita of money.

While this is very indicative, it is not conclusive. Per capita of *wealth* must be considered. Taking only four leading nations, we find the United States first in population (as among the four), first in wealth, third in per capita of wealth, and fourth in per capita of money. Great Britain fourth in population, second in wealth, first in per capita of wealth, and fifth in per capita of money. France third in population, third in wealth, second in per capita of wealth, and first in per capita of money. Germany second in population, fourth in wealth, fourth in per capita of wealth, and ninth (as among twenty), in per capita of money.

While the per capita of wealth is smaller in the United States than in England, there is more of poverty and pauperism there; and while our per capita of money is greater than England's, she is the money lender for the whole world, and all exchange centres in London, the world's financial capital. These facts ought to dispose of the per capita delusion.

It is interesting also to note that, massing figures for the four great nations last named, the average per capita of *wealth* is about thirty-nine and one-half times larger than the average per capita of *money* existing in those nations. In the United States it seems to be a fraction under thirty-eight times as large. We have a small per centage *more* of money, as compared with wealth, than the average of the four great nations last named.

Another interesting fact is, that the actual amount of money in these four nations is only about two and one-half per cent. of their total wealth, while in the United States it seems to be a small fraction under three per cent., a small fraction above the three others of the four nations. Therefore we are not short of money as compared with them. How can England be so wealthy, and take the lead in loans and exchange, with no more money, either per capita or in the aggregate, than other nations? It is because of her vast accumulated *investments*.

CIRCULATION.

The effect of movement, circulation, is very much overlooked. The effectiveness of money as an instrument depends primarily upon its *facility for circulation*, its physical, mechanical quality of compactness. Its *actual circulation* depends on the faith of the public in it, and the certainty, regularity and uniformity of effects produced by it.

In 1890 the total clearings in 37 of the principal cities of the United States was $60,000,000,000. Estimating the total amount of money of all kinds in circulation in the country in the same year at $1,500,000,000, we see that 37 cities used all the money in the country forty times in one year, or once in nine days and three hours. If the total use in the whole country doubled that, which can never be known, it was all used eighty times in a year, or once in four days and a half. Again, according to the census of 1890 the national, State, county and municipal indebtedness of the whole country was then $26.44 per capita, *slightly exceeding the per capita of money in circulation.* If we estimate the corporation and personal debts to amount to as much more, the total per capita of indebtedness is more than twice as large as the per capita of money in circulation, to say nothing of the *vastly greater amount of property or wealth valued in terms of money.* We thus seem to be a badly insolvent people, according to the per capita theory. But the money will pay the debts, as they mature, and accommodate commerce and the sales of all kinds of property in the meantime. It does this by moving, just as any other instrument accomplishes its effect by motion, as a yardstick will, by much using, measure millions of yards of cloth, or a half-bushel measure will measure a farmer's

whole crop. The village retail merchant *must* have one yardstick. Five would be a surplus. One hundred would be in his way. And money acts to a large extent without moving at all, and without being counted, being simply called for by small pieces of paper, and entered on the ledger account. This is an accelerated circulation more effective than actual movement or counting. No one would count $100,000 in gold; certainly not that much in silver. It is represented by a check, charged to the drawer, and credited by the drawee to the payee or his indorsee. But the metal must be behind the check. Even if paid over the counter in legal-tender paper, the greenbacks promise gold, and would be worthless without that promise, and the ability to keep it. In large bills the whole amount of $100,000 could be carried in one pocket. A hotel porter would stagger under the weight of that sum in gold. Sixteen of them might carry its legal ratio in legal-tender silver dollars, and a troop of thirty such porters might carry to your cellar its commercial value in silver bullion.

If all the money in the country is used eighty times in a year, then if the total of all kinds in circulation in 1890 was $1,500,000,000 that represented a total use of $120,000,000,000 in that year, more than enough to pay the total indebtedness, public and private, all in one year, and to buy, sell and pay for the total property or wealth of the country twice in less than a year. Of course, this is not done. Much of this vast amount of clearings or circulation comes of handling large blocks of stock bought and sold many times in a year, and borrowing and paying very large sums on very short time. It may well be doubted whether the total use of money in the whole country outside the thirty-seven large cities equaled or nearly equaled the clearings of those cities. Circulation in the smaller towns and in the rural districts is slower and in smaller sums, while actual money, by count, is used in greater, and checks in smaller proportion, than in the cities. But this view of the use of money shows the wonderful capacity of a limited sum in circulation to do an enormous volume of business; and how small a per cent. of money to wealth will suffice to represent that wealth and do the business of the country. If there be only enough money to do that business, the idea that more money would create more business and prosperity, is at once a fallacy and a danger.

THE FUNCTION OF GOVERNMENT TOUCHING MONEY.

The whole matter of money, a measure of value, a means of exchange, a circulating medium, is one of necessity, convenience, adaptation to the end. It is a question of the fitness and effectiveness of the material substance of which the instrument is made.

Manifestly that fitness, the convenience and effectiveness of the thing, must be determined by the judgment of those who use the instrument, those who do the business, the labor and exchange of the world.

Law should attempt to follow that judgment and not attempt to form it, force it, or control it. Experience has determined several points as to fitness, convenience and efficiency. Silver is found too precious, too concentrated, to be conveniently used to represent very small values. Something more bulky, that is, of less value by weight, is needed. Hence for smallest values copper coins, for slightly larger, nickel or some equivalent, and for still larger, silver.

But silver is too bulky, that is, of too little value by weight, to represent very large values. Hence gold is used for these. But even gold is too heavy and bulky to be used by actual count, or by actual weighing, and passing from hand to hand at every turn in large transactions, especially between dealers at a distance.

Hence come into use bank notes, and far more largely still, checks and bills of exchange. By means of these a given quantity of money will rapidly, though only in a legal sense, pass from hand to hand, from owner to owner, by mere entries on books of account, no money being actually counted, nor even seen by

the banker who keeps it locked up in his vaults. Checks and bills of exchange are simply additional facilities, conveniences, multiplying the rapidity of circulation—more rapidly changing ownership. But the money they represent must be behind them.

We now see the reason why Government cannot make anything money which it chooses to call money, nor make it money, "current with the merchant," nor current with the laborer, by simply calling it a legal tender. Government can no more do this than it can say what your day's wages shall be, or what shall be the price of a bushel of wheat. Any government assuming to do these things would soon be reformed, or if need be, revolutionized by force.

Having seen the function of money, and the materials of which it should be composed, and seeing that Government cannot make money of iron, or leather, or pasteboard, simply because intelligent, free people of great commercial interests and activities will not use those substances as money, the question arises, What is the function of government in regard to money? Here again the answer is, simply to *increase* the convenience and effectiveness of the *substances* or materials which the people have already found most convenient and effective as standards of value. Increase it how? The old-time method of use was to *weigh* the metal. That is slow and cumbrous, and inexact, unless a part at least of the amount be divided into very small pieces; in case of gold, too small for either safety or convenience. Hence the art of *coinage*, each piece of copper, silver or gold being composed of a given weight. But if coinage be left to individuals fraud will creep in; alloys, mixtures, debasement would be practised. Hence the convenience, the effectiveness, the fitness of metal coined into money is immensely increased by confidence in its purity and in the fullness of its weight. Therefore the only duty and province of Government in regard to coin is, by its stamp, to certify that a given piece of metal is of a given weight and of a given fineness or purity. There the interference of Government should stop, unless to declare what is legal tender, and *in what sums*, as to each metal. It is now doubted by some whether Government should go further and make anything a legal tender for debts, and whether it would not be better to leave every man to make his contract to be paid in the money of his choice. If this were done, and the mints of the whole world were thrown open for free and unlimited coinage of all metals now used as money, the owners of the coin would soon find which would circulate and which would not. But I pass no opinion whether Government should define or establish legal tenders.

DENOMINATIONAL VALUES.

In what denominations should the different materials of money be used? This can only be answered by experience. The judgment and experience of those who use the money is the only answer. Possibly no very great improvement could be made upon our present arrangement. But I venture to suggest for consideration that paper money, while a very great convenience, and safe if the gold is behind it, has become too much of a fad, and has therefore been issued in denominations too small for real convenience and effectiveness. If we had no bank notes or government notes under $5, and more of $2.50 gold coins, I think it would be an improvement. Then, while a gold dollar of the present standard of purity is too small, either for convenience or safe-keeping, if we would put a dollar's worth of gold and enough alloy to make them, combined, a dollar coin about the size of our silver dime, and stamp it one one side "one dollar" and on the other "unit of value," it would be popular and useful. Then if silver dollars were recoined into halves, quarters and dimes, not in the least diminishing the silver in circulation, this change, with the unit dollar, and the withdrawal of all paper

money less than $5, would, I think, put our currency on a basis at once more convenient and more sound and stable than it is at present. Too much paper money, too much in bulk, in denominations too small, has a wrong educational effect. It takes the mind of the people too much away from the underlying, fundamental notion of convenience, stability and fitness of the instrument, and practically though not logically, lends support to the notion that governments, and even banks, can create money, can make a dollar by printing a piece of paper and calling it a dollar.

PARITY AND RATIO.

"Sixteen to one" and "free coinage of silver, with full, unlimited legal tender," are urged by their advocates very much as if both propositions were laws of nature, among the inalienable rights of man, or even ordinances of God.

Parity means equality. Silver not being equal to gold in value, ounce for ounce, there have been, in different countries, and at different times in each country, attempts to fix the legal ratio between coins made of those metals. The last attempt of the United States was a ratio of nearly 16 to 1. That means that there shall be in a silver dollar sixteen times the weight in silver that there is of gold in a gold dollar. Therefore *parity* now means with us parity at the ratio of 16 to 1. In the early history of our government Jefferson said: "The proportion of value between gold and silver is a mercantile problem altogether." He did not mean that there should be no legal ratio, but that the legal ratio should be based upon the commercial ratio.

For several centuries in Europe legal ratio was a device either to keep coin at home, prevent its exportation, or to circumvent neighboring nations. In modern times the attempts have been to make the legal express, or very nearly express, the commercial ratio. It was reserved for our Government, when the ratio became much less favorable to silver, to attempt to "maintain the parity of the two metals," by making silver legally tenderable without limit, compelling the Treasury to purchase several millions a month of silver bullion, and paying for it in government notes redeemable in gold. This was a distinct legislative admission that without the option to demand gold on those notes, without gold as a prop, silver could not stand alone on its own merits. In other words, *gold was used as a lever to force silver up to a parity with gold. And silver continued to fall until now it is about 30 to 1.*

To be ready to pay in gold its legal-tender greenbacks and its notes given in the forced purchase of silver, the Government has now and then had to borrow gold. The borrowing was right and was a necessity when the crisis came. But the policy which necessitated the borrowing is wholly bad. Fortunately Congress has repealed one feature of the dangerous system—the enforced purchase of silver. The gold borrowed represents just that much taxation for both principal and interest. The people will have to be taxed for trying to maintain a legal artificial parity which does not exist commercially. It is very much as if a school-master should teach a class of boys two games. They like one and don't like the other. They play the one they like, and won't play the other. Then the teacher pulls up the whole class and thrashes all the boys soundly *to make them like the other game* and to "maintain the parity" of the two games.

When cattle were received in payment of fines the number was fixed by law. So for the same purpose silver, brass, copper and tobacco have been imposed as fines and received by weight. This was the legal, or as we might say, the criminal ratio between these articles, *and a crime or misdemeanor.* But when any of those things changed hands between individuals in the act of *buying and selling other things,* the ratio between them and the other things was a matter of contract.

And so the ratio between a man's house and his neighbor's gold coin is a matter of contract. In the same way the relative value of gold and silver is a matter of commercial consensus. If, owing to fluctuations, government cannot keep the two ratios, legal and commercial, in touch, or if, without fluctuations, commerce and business show a marked preference for the coins of one metal over the other, then government should either abolish all legal-tender laws, and simply enforce contracts for the kind of money agreed upon, or, make the preferred metal unlimited legal tender, and limit the legal-tender quality of the other to such sums as business and commerce will absorb and use, *merely for the sake of convenience,* the necessity of having *something* to represent small transactions. Such was once our own law and policy. It was changed and silver dollars made unlimited legal tender, in the hope of increasing the price of silver as bullion, and increasing its circulation as coined money. Its price as bullion went down more rapidly than before, and to-day only about 6 per cent. of the money in circulation is silver coin. Its circulation cannot be forced. Nearly $400,000,000 of silver dollars now lie idle in the Treasury vaults.

From the earliest records we have of ratio, both legal and commercial, it has constantly varied both in time and place. While silver has sometimes gained on gold temporarily, the general and constant average tendency has been the relative depreciation of silver. In the 14th century, as we are informed by Mr. Shaw in his recent valuable "History of Currency," the ratio was 7 or 8 to 1 in the Moorish province of Spain, and 12 to 1 in the Christian Kingdom of Castile. In 1344 the King of England proclaimed it 12.61 to 1. In 1474 it was 11.15 to 1 in England; 11.12 to 1 in Germany; 11 to 1 in France; 10.58 to 1 in Italy and 9.82 to 1 in Spain. Silver stood better then than now. The rich silver mines and great output of Potosi caused a marked decline of value after the discovery of America. Quite recently Nevada has added her hundreds of tons. But increased production has not caused all the decline. The history of Greek and Roman commerce, in which gold came most largely into use when that commerce was most flourishing, the history of stagnated Europe in the Middle Ages, when silver was almost the only money, and the history of the revival of commerce, some four centuries ago, and its enormous growth in the present century, all attest that just in proportion as commercial transactions are larger and more rapid, gold comes into greater relative use, and silver passes into disuse, as an instrument for effecting and adjusting exchanges.

An account of the fluctuations between the two metals, the changes of legal ratio, changes in weight of coins, debasement of coinage, and how either gold or silver would quietly, quickly, unseen, slip from one country to another, under what is now known as Gresham's law, would fill volumes. Besides changes in weight, ratio, and in purity, and in legal parity, many countries sought to prevent the exportation of the precious metals by severe punishment, inflicting even the death penalty. About 500 years ago prominent merchants of London were hanged, drawn and quartered for the offense. In France the legal ratio between gold and silver was changed 150 times in 100 years, an average of eight months of stability. In 1303 it was 10.26 to 1; in 1311 it was 19.55 to 1, and in 1313 it was 14.37 to 1.

It is not stated, nor need we believe, that all these changes were made on account of fluctuations in the commercial ratio. Many, if not most of them, were made, no doubt, for another reason. Legal ratios were different in different countries at the same time; and owing to this fact, and errors of adjustment in any given country, the underestimated metal would flow into some other country, where it counted for more. Many changes of weight, fineness and ratio were

made in the vain attempt to keep coin from going from one country to another. It was literally a monetary war, fierce, rude, ignorant and unscrupulous. These devices being not now practiced by respectable governments, but fluctuation in commercial ratio remaining, the bimetallist proposes international agreement as a means of fixing permanently a legal ratio, in despite of commercial disparity. To this there are several answers :

1. The difficulty is inherent in a double standard.

2. All nations combined cannot control the judgment and preference of commerce.

3. The difficulty is not wholly nor mainly the fact of fluctuation in commercial ratio. It is, that civilized commercial nations do not want, *and will not have*, silver as a standard. It is not concentrated and convenient.

4. The leading nations have so far failed to agree, and at present decline any further attempt to agree. That *fact* ends all argument and theory about what international agreement could be made to accomplish.

Treaties could do no more than law. It has been fully ascertained how much law can do. The powerful factors of convenience, utility, necessity, effectiveness, suitableness to an end, make us all bimetallists *to a limited extent*, and tri-metallists to a very *small extent*.

We must have both gold and silver coins, and then we *will* have paper representatives. But all money should be of equal value or pass *current for its allotted purpose* and without question. It would be very inconvenient in making our purchases to find that an article of dry goods or a bushel of wheat is worth $1.47 in paper money, $1.27½ in silver, and $1 in gold. Money thus loses much of its effectiveness as an instrument, a mode of estimate and payment, and for the exchange of products.

Seeing that facts, the verdict, of the commercial world, have established a commercial ratio between gold and silver that differs from our legal parity, can government, can law, push a silver dollar up to commercial parity with a gold dollar, and keep it there in unlimited quantities ? In small sums, in small payments, it may do so, merely on the ground of convenience and necessity, just as in still smaller matters copper coins are accepted at less than half their commercial value.

In the face of all these facts, or in ignorance of them, as the case may be, silver inflation is discussed and demanded very much as if from Mount Sinai we had the Eleventh Commandment : "Thou shalt exalt silver. Thou shalt maintain silver at 16 to 1, and thou shalt tax all the people, even him that tilleth the field, in order that thou mayest reward him that diggeth in the mine for silver."

FIAT MONEY.

I once heard a People's Party or Populist speaker discuss this subject. He raised high in air a large umbrella and exclaimed in piercing tones : "If the government calls this *umbrella* a dollar it *is* a dollar," emphasizing the statement by bringing the huge mass of hickory stick, whalebone ribs and cotton cloth down on the table with a tremendous bang.

I thought the illustration exceedingly happy. From his point of view, from the standpoint of all advocates of fiat money he was strictly logical and absolutely correct. If the government can make a piece of irredeemable paper a dollar, or can make fifty cents' worth of silver equal in value with a gold dollar of the present weight, by calling the silver a dollar, it could convert old umbrellas into dollar pieces, or ten-dollar pieces. Indeed there is no limit to the legal tender *denominational fiat value* that could be placed on old umbrellas. Nature has made gold compact and scarce and the supply tolerably steady, and these qualities

render it the best money measure for other things. *There is a mechanical and physical, as well as legal, element in money.*

At the close of the revolutionary war the country was flooded with irredeemable paper money, fallen enormously below par as compared with gold and silver. Prior to the adoption of the national Constitution some of the States vainly attempted to bolster up their paper currency by making it a legal tender for debts, and inflicting heavy penalties for refusal to accept it (Fisk's "Critical Period"). Hence the provision in the Constitution of the United States that no State shall make anything but gold and silver legal tender. As the power to *coin* money was granted exclusively to the national government, and as *coins* were and always had been of metals, the fair inference is that no one of that day ever conceived that the national government had power to make anything but coined metal a legal tender. The Supreme Court once so decided, but unfortunately the decision was afterward overruled and a different conclusion reached, in the greenback cases. The last decision in no way affects the economic and scientific view of money.

POOR MAN'S MONEY.

Demagogues have called silver "the poor man's money." Silver and paper money of small denominations are everybody's money, the money of the pocket, the money of small transactions. Those who have larger transactions use bank checks. But if silver is the poor man's money I would ask, why is it such ? If because he uses money in but small sums, then silver is everybody's money, in small sums. If it is the poor man's money because it is cheaper than gold, less valuable than gold, and therefore has less purchasing power, I would ask if the poor man, the laboring man, has not the right to as good a dollar as the rich man ? Shall we have a yardstick of 36 inches for the wealthy and a yardstick of 24 inches, or only 18 inches for the poor man ? Shall we have a bushel of four pecks for the wealthy, and a bushel of three pecks or two pecks for the laborer ? The people who thus try to humbug the poor man would in reality become his robbers and oppressors. With a depreciated currency the prices of all things he uses would increase, while his wages would remain the same, at least for a good while after the inflation. This is the uniform experience. The wage earner, the day laborer, is always the greatest sufferer from a depreciated currency.

GRESHAM'S LAW.

We cannot stop to explain at length the reasons for the fact or phenomenon called Gresham's Law, the fact that bad or inferior money drives better money out of circulation. An advocate of silver inflation once asked, "What right had Secretary Gresham to make such a law ?" It was Sir Thomas Gresham, in the reign of Queen Elizabeth, who first officially, clearly and publicly called attention to the phenomenon. In the same way we have heard of "Grimm's Law" ; something, I do not know what, about grammar and the evolution of language, and "Kepler's laws" of astronomy and planetary motion, which I heard of at school, but would not now try to explain on short notice. The neatest and clearest reason I have seen stated for the uniform occurrence of the *fact* called "Gresham's Law" is from an old book entitled, "Dialogue concerning the Commonweal of this Realm of England." There was an issue of debased coin in England, hoping that, by fiat of the crown, the money thus increased in volume would pass equally current with the old and pure coin. It was noticed that very soon all the pure old coin had left the country, prices had gone up enormously, everybody was poorer and business was prostrate. The writer says : "Everything *goes where it is most esteemed.* And therefore our treasure *goeth over in ships.*" That is the whole

of Gresham's Law. The silverites would drive $600,000,000 of gold out of this country if allowed their way. It would go over in ships.

GOLD AND SILVER MINING DO NOT MAKE A NATION RICH.

In considering the essential nature and function of money in its highest and best form we must severely rid ourselves of the idea that it has any "domicil of origin" or can be localized by law, or compelled to serve one people exclusively. We speak now only of money, or materials for money, recognized and sought for as much by the civilized commercial world. Such money, the best money, money that is current and acceptable everywhere, has a strong tendency, an ultimate irresistible movement, toward the places which have something to offer for it: something *to offer in exchange which the owner of the money wants.* Stated differently, such money will entirely abandon the country where the metal is mined, to go to countries of useful industries, manufactures and commerce, in the form of prices paid, and to creditor or lending countries, in the form of interest and principal of loans. Only inferior forms of money, money of bad material, money not in good credit, can be localized by law. And even such money is localized by its own bad character and credit, rather than by operation of law.

When the gold and silver from Mexico and Peru were poured in vast quantities into the lap of Spain, she had immensely more of them than other countries. Yet owing to bad economic and political conditions, Spain was growing poor, while Holland and England, *without producing any gold and silver,* were gathering them from all the world by their industries, commerce and carrying trade. Spain thought she was enormously rich, thought money was wealth, and thought to remain rich by strictly prohibiting the exportation of the precious metals. Prices rose enormously, and people could not imagine the reason. But Spain, without commerce, lavished her money on useless wars and in subsidizing her allies. The money thus got into circulation outside of her borders despite her ignorant policy, and commerce, as it always will do, carried it to countries of productive industries and trade. Holland and England grew; Spain declined.

But we do not need to search history. We have examples nearer home and within our own recollection. California has produced more gold than all the other States combined. Why is she not the richest State in the Union? Because trade carried her gold dust before it was coined where the owners of it could get what they wanted. Why is she now blessed with a large share of wealth, both in the aggregate and per capita? Her grains, fruits, wines, cattle and fleeces answer the question. Why are New York and Pennsylvania the wealthiest of our States, without any mines of gold or silver? Agriculture, commerce, manufactures and coal and iron mines answer the question. Nevada has produced more silver than any other State, possibly more than all the others combined. Why is she to-day the poorest State in the Union? Because those who dug her silver by the ton sold it and went elsewhere to find what they wanted, and to live and spend the proceeds in more attractive places; and because Nevada's soil, climate, commerce and manufactures, unlike California's, do not make a place that money loves to flow into. Nevada's vacant place gives nothing in return. And what makes Colorado a State of growing wealth? Not her silver and gold mines, but agriculture, irrigation, live stock, manufactures, coal mines; and soon her fruit will be added to the list.

DISTRIBUTION OF MONEY.

Labor makes things, gives them utility, potential value; demand creates their actual market, commercial, salable value; money effects their exchange, and commerce distributes money. If it appears to concentrate it, that is only because

the centres of apparent concentration have things to sell, and afterward money to lend, in response to the demand of borrowers. The examples of Spain, Holland, England, California, Nevada, Colorado, Pennsylvania and New York, already given, illustrate the fact that money will not stay where the gold and silver are mined.

The total product of gold alone, to say nothing of silver, in the United States since 1776, is estimated to be as great as the present total of money in circulation—gold, silver, greenbacks, national bank bills, Treasury certificates and notes, all told. What has become of it? Where has Australia's gold gone? Commerce answers, and answers beneficially for both countries. Both produced more than their average of gold—produced it *at a profit*—then used it to buy what they wanted—the products of other people's labor. It was thus scattered over the world, and thus trading nations approach to an equality in per centage of money as compared with their wealth.

The world's total supply of gold is estimated at between $5,000,000,000 and $6,000,000,000, and we have 10 per cent. of the total if ours be $600,000,000 as estimated. If we could suddenly double our own, making it $1,200,000,000 we would have not quite 20 per cent. of the increased total. We would not keep this surplus. Commerce would quickly reduce us to our average, and benefit us in doing so, for the $600,000,000 suddenly mined would buy more labor, in the form of labor's products, than was expended in producing the gold. Try the same increase with silver. All the gold we now have would then go abroad to pay balances, silver would not be received abroad, and we would be left with inferior money, a standard changed in material, vastly increased in bulk, and of immensely smaller purchasing power. Prices would be enhanced, as measured by this inflated, inferior money, and wages *stationary*, or nearly so. Why do we say this of wages? *Because the uniform history of changes from good to worse money throughout the world, shows that the wage-earner suffers more by such a change than the man whose business requires the use of capital.*

If our supply of money were doubled, in the form of depreciated silver, it would stay with us. It would not "go over in ships." Other nations do not want it and will not have it. Therefore the silver advocates are right in supposing that they could permanently increase the per capita and the percentage of our money—nominally increase it in volume, but they could not actually increase it in value or efficiency, or purchasing power, by changing our local standard of value, and putting it in conflict with the world's standard. It would give our standard international disparity—disparity between the two metals at home being the very thing that the silver advocates are so much afraid of.

METALLIC BASIS.

Having seen the utility of checks, drafts and bills of exchange, and their enormous use as compared with actual money, and seeing the convenience of paper money, as compared with coin, in large quantities, the question arises, Why have *any* metallic basis? And if any, why principally gold?

A sufficient answer would be that as the efficiency of money depends in large measure upon its *convenience and suitableness as an instrument*, and as gold is, in large sums, legally 16 times, and mechanically and commercially 30 times, as convenient and suitable as silver, we have a right to follow these paper representatives *up to their base* and there compare them and judge the one by the other. But, having admitted that even gold payments are not accomplished to any considerable extent by actually counting the coin, we are still properly pressed with the question, Why is not silver as good a basis as gold for the circulation of paper representatives—a metallic basis for drawing against? We could answer the question by asking

another: Why would not tin, or copper, or lead, or pig-iron be just as good a basis for issuing Treasury notes, or bank notes, or as good a fund to draw against by checks and bills of exchange, as silver? Opponents of unlimited silver coinage admit that silver is a better drawing fund than these baser metals. For the same reason, gold is better than silver. It is a question of the relative fitness—the ultimate mechanical fitness of *the metal represented by the paper.* A proxy casts no more votes than the principal could. A piece of paper money can be no better than the coin it represents.

ADVOCATES OF SILVER INFLATION.

It is always useful, and sometimes suggestive, to analyze the forces entering into a popular movement. In this silver movement we have:

I.—The owners of the silver mines in the "Silver States," seeking to manufacture by law a better market for their silver bricks, and to grow still richer at the expense of the people.

II.—Honest ignorance. Those who, without exactly thinking that government must take care of us all, have not yet discovered that money is not the whole of wealth, and really believe that more money in the country means less labor to make a living.

III.—Those who understand this thing, and morally know better, but hope out of much new and depreciated money the more easily to pay old debts. Debts contracted in gold values would be paid in dollars worth fifty or fifty-five cents. I have seen this idea openly, impudently and unblushingly urged by a great journal, in a silver State, addressing itself to farmers carrying mortgages on their lands.

IV.—A big lot of bright, smart fellows who are always ready with an infallible judgment about all things, without ever studying or understanding anything.

V.—Some public men, who understand this thing perfectly well, but have not the courage to tell the people the truth, wishing to carry gold on one shoulder, silver on the other, and votes on both.

VI.—Some honest public men who do not understand this thing and never will.

END OF
TITLE